INSURANCE PREMIUM TAX

DESCRIPTION

This tax is imposed on net insurance premiums received by insurance companies for risks that exist within the state. Included are premiums for life insurance, accident and health insurance, AHCCCS contracted coverage, fire insurance, vehicle insurance, prepaid dental and legal insurance, and other property and casualty premiums such as homeowners and commercial insurance, medical malpractice, and fidelity and surety insurance.

The tax applies to insurance companies formed under the laws of this state ("domestic" insurance carriers) and insurance companies formed under the laws of another state within the United States or another country ("out-of-state" insurance carriers).

Insurance premium tax also includes "retaliatory" taxes, which are taxes owed by out-of-state insurers to the extent that the sum of taxes an insurer pays in Arizona is less than what the sum of taxes would be if the same insurance business were transacted in the insurer's "home" state (state of domicile).

DISTRIBUTION

Except for a portion of the tax on fire insurance premiums and an additional tax paid on vehicle insurance premiums, these tax revenues are deposited in the state's General Fund [A.R.S. § 20-227].

Eighty-five percent of the fire insurance premium tax is transferred to cities and towns and legally organized fire districts which procure the services of private fire companies and to cities and towns which have their own fire department or legally organized fire district. The proceeds are to be used to assist in funding pension plans for fire fighting personnel. The other 15% is deposited into the state's General Fund [A.R.S. § 20-224, A.R.S. § 9-951, and A.R.S. § 9-952].

An additional tax of 0.4312% paid on insurance carried on vehicles is separately accounted for and transferred to the Public Safety Personnel Retirement System for deposit in the Highway Patrol Account to assist in funding the pension plan for highway patrol personnel [A.R.S. § 20-224.01].

Table 1 on the following page provides the historical distribution of insurance premium tax. It should be noted that the "total" column in the following table reflects net collections for the fiscal year, and in some cases, does not equal the amounts distributed to the General Fund, the Public Safety Personnel Retirement System, and to cities and fire districts. In these cases, some collections were carried forward into the next fiscal year and were distributed then.

WHO PAYS

All authorized insurers and formerly authorized insurers (insurers not currently authorized, but continuing collection of premiums and servicing of existing policies in the state) are subject to the insurance premium tax. In addition, health care service organizations, prepaid dental plan organizations, and prepaid legal insurance corporations are subject to the tax [A.R.S. § 20-206, A.R.S. § 20-224, A.R.S. § 20-401.05, A.R.S. § 20-416, A.R.S. § 20-837, A.R.S. § 20-1010, A.R.S. § 20-1060, A.R.S. § 20-1097.07].

Out-of-state insurers pay the greater of the Arizona insurance premium tax or the tax imposed by their home state on Arizona insurers. For example, if an out-of-state insurer operating in Arizona pays a 2% insurance premium tax to the Department of Insurance and Financial Institutions (DIFI), but an Arizona insurer operating in the out-of-state insurer's home state pays a 3% premium tax, the out-of-state insurer must also pay DIFI a 1% retaliatory tax that equals the difference in rates charged in the 2 states. Arizona provides an exemption from retaliatory tax if the out-of-state insurer's home state does not charge retaliatory taxes on Arizona insurers. Retaliation applies to taxes, fees, assessments or other charges levied in the insurance company's home state [A.R.S. § 20-230].

Table 1

INSURANCE PREMIUM COLLECTIONS AND DISTRIBUTION

Fiscal Year	General Fund	Transfer to Public Safety Retirement System	Transfer to Cities and Fire Districts	Total
2023	$761,341,988	$28,079,433	$27,324,457	$816,745,877
2022	$707,654,005	$27,522,673	$22,243,723	$757,420,401
2021	$616,251,446	$27,159,531	$19,246,959	$662,657,936
2020	$535,163,356	$26,507,317	$18,797,111	$580,467,784
2019	$549,596,876	$25,562,011	$18,195,409	$593,354,293
2018	$509,276,002	$23,233,981	$17,165,571	$549,675,554
2017	$504,339,292	$21,009,348	$16,419,859	$541,768,499
2016	$490,576,281	$19,312,244	$16,777,097	$530,178,577
2015	$449,546,754	$18,212,445	$13,343,767	$481,102,966
2014	$411,760,685	$16,942,842	$14,481,050	$443,184,577
2013	$386,776,104	$16,185,326	$13,141,283	$416,102,713
2012	$393,990,499	$15,720,974	$12,606,341	$422,317,814
2011	$413,765,850	$15,978,058	$12,514,392	$442,258,300
2010	$405,612,042	$16,696,764	$13,492,671	$435,801,477
2009	$411,370,853	$17,507,607	$12,480,006	$441,358,466
2008	$407,035,082	$17,569,437	$13,361,461	$437,965,980
2007	$399,850,367	$17,861,557	$12,652,891	$430,364,815
2006	$373,703,789	$17,057,414	$11,842,931	$402,604,134
2005	$358,752,402	$16,234,673	$12,459,164	$387,446,239
2004	$308,967,921	$15,441,384	$11,677,878	$336,087,183

SOURCE: Department of Insurance and Financial Institutions

REVENUE BASE AND RATE

The tax applies to premiums paid for insurance covering liabilities that exist within the state. The tax is levied on the net premium income, which is defined as the total amount received from premiums after deducting cancellations, returned premiums, policy dividends, refund reductions, savings coupons, and similar amounts paid or credited to policyholders within the state, and not reapplied as premiums for new, additional, or extended insurance [A.R.S. § 20-224].

Beginning in calendar year (CY) 2021, the insurance premium tax rate on most insurance lines, including property and casualty insurance as well as life insurance and annuities is 1.7%. Laws 2016, Chapter 358 gradually decreased the tax rate from 2.0% in CY 2015 to 1.7% by CY 2021 and every subsequent year (*See Table 2*). This schedule of rate reductions replaced the schedule enacted under Laws 2015, Chapter 220, in which the rate was decreased gradually from 2.0% in CY 2015 to 1.7% in CY 2026 [A.R.S. § 20-224].

The insurance premium tax rate on other lines of insurance is as follows:

- Fire insurance on properties located in an incorporated city or town which procures the services of a private fire company [A.R.S. § 20-224]: 0.66%
- All other fire insurance [A.R.S. § 20-224] [A.R.S. § 20-224]: 2.2%
- Vehicle insurance [A.R.S. § 20-224.01]: 2.1312% of which 0.4312% is an additional tax to assist in funding the pension plan for highway patrol personnel
- Disability Insurance [A.R.S. § 20-224]: 2.0%
    - Health Care Service Plans, including AHCCCS contractors [A.R.S. § 20-837, 20-1010, and 20-1060]: 2.0%
    - Surplus line insurance [A.R.S. § 20-416] (types of insurance that are not sufficiently offered by authorized insurers and therefore may be procured from unauthorized out-of-state insurers): 3.0%

- Industrial insurance contracts procured from unauthorized insurers [A.R.S. § 20-401.07]: 3.0%

Certain types of insurers, employee benefit trusts, and voluntary employees' beneficiary associations are exempted from the insurance premium tax, including some hospital and medical service corporations, some fraternal benefit societies, non-profit military mutual aid associations, and extended warranty insurers [A.R.S. § 20-108].

Title insurance premiums are also exempted from the insurance premium tax and title insurers are instead subject to the state income tax [A.R.S. § 20-224 and A.R.S. § 20-1566].

Premiums paid by government entities to non-profit hospitals and medical, dental, and optometric service corporations are exempt from the insurance premium tax [A.R.S. § 20-837].

Table 2

INSURANCE PREMIUM TAX RATES 1/2/

Calendar Year	Rate
2015	2.00%
2016	1.95
2017	1.90
2018	1.85
2019	1.80
2020	1.75
2021 -	1.70

1/ As enacted by Laws 2016, Chapter 358.
2/ Rates apply to life, vehicle, and other property and casualty lines of insurance.

TAX REFUNDS AND/OR TAX CREDITS

Affordable Housing Premium Tax Credit. A credit against insurance premium tax liability is allowed if the Arizona Department of Housing issues an eligibility statement for qualified projects for affordable housing. The amount of the credit is equal to at least 50% of the federal Low-Income Housing Credit for the qualified project. The Department of Housing cannot authorize more than $4 million in total credits annually. The credit may be distributed among the partners, members or shareholders of the claimant regardless of the size of the participants ownership interest. The total amount of claimed credit may not exceed the claimant organization's tax liability for the year but may be carried forward for up to 5 years. The credit is repealed on January 1, 2026 [A.R.S. § 20-224.04, A.R.S. § 41-3954 and A.R.S. § 43-225].

Health Insurance Premium Tax Credit. A premium tax credit is allowed for health care insurers that provide health insurance to qualified individuals and small businesses that are certified by the Arizona Department of Revenue (DOR). An application must be submitted to DOR for the tax credit, which includes a written declaration subject to the penalties of perjury [A.R.S. § 20-224.05 and A.R.S. § 43-210].

An individual or small business must obtain health insurance to receive the credit. In order for the insurer to claim a credit on an individual, that individual must be a United States citizen or legally residing resident. The individual must also: 1) earn less than 250% of the federal poverty level, be a resident of Arizona, not have had health insurance for at least the past 6 consecutive months, and not be enrolled by any other state or federal government health insurance program; or 2) work for a small business that has been in existence for at least 1 calendar year and that has not provided health insurance to its employees for at least 6 months. A small business is defined as between 2 and 25 employees during the most recent calendar year.

The amount of the tax credit for individuals is the lesser of the following: a) $1,000 for single coverage, $500 for coverage of a child, or $3,000 for family coverage; or b) 50% of the health insurance premium. The amount of the tax credit for small businesses is the lesser of the following: $1,000 for single coverage or $3,000 for family coverage; or 50% of the health insurance premium.

Health insurers are required to deduct the amount of the tax credit from the premium paid by the individual or small business for health insurance. In this way, the state effectively subsidizes the cost of the individual or small business's health insurance in the amount of the premium tax credit. The maximum amount of tax credits allowed in a calendar year is capped at $5.0 million. The tax credits are administered by DOR.

Insurance Guaranty Fund Assessment Credit. A taxpayer may claim an insurance premium tax credit on 20% of any assessment paid to the Arizona Life and Disability Insurance Guaranty Fund (ALDIGF). Taxpayers may take an additional credit of 20% of the assessment in each of the 4 subsequent years following the assessment, thus allowing taxpayers to offset 100% of the cost over a 5-year period.

The ALDIGF was created as a safeguard to meet the obligations of a licensed insurance company in the event that the insurer becomes insolvent. Monies in the fund come from an assessment levied on all other licensed insurers. The maximum assessment amount that can be levied on a single insurer in any one year is capped at 2% of the insurer's average total premiums of similar insurance lines covered by the ALDIGF in the previous 3 years. This assessment was levied in FY 2018 due to the failure of 2 national insurance companies with business in Arizona. Prior to FY 2018, the assessment was last levied in FY 1997. (For more information on Insurance Guarantee Fund Assessments, see *Insurance Guarantee Fund Assessments* section of the Tax Handbook.)

New Employment Tax Credit. A $3,000 annual tax credit may be claimed for each net new qualifying job added by an employer in the state. To qualify for the credit, new employment positions must be full-time, meet wage requirements, and offer health insurance paid by the employer (at least 65% of the premium). Credits associated with 1 net new job can be claimed for 3 years. A company may claim first year credits for separate new jobs for up to 3 consecutive years. Since second and third year credits may be claimed against each of the new positions, the taxpayer may claim credits for up to a total of 5 consecutive years. The Arizona Commerce Authority (ACA) is authorized to issue first year credits for up to 10,000 new employees ($30.0 million) in each year.

Prior to Laws 2017, Chapter 340, a business could not claim the new credit unless it added at least 25 net new jobs in a year in an urban area (5 in a rural area), paid employees at least 100% of the county median wage, and made a capital investment of at least $5.0 million ($1.0 million in a rural area). Beginning in TY 2018, Laws 2017, Chapter 340 permits businesses to qualify under the alternative levels of capital investment and wages shown in *Table 3* and permits ACA to authorize credits through June 30, 2025. A business can now invest less than $5.0 million if they pay wages that exceed 100% of the county median level. The required number of net new jobs remains unchanged. Given the maximum 5-year schedule outlined above, businesses may claim credits through TY 2029. [A.R.S. § 41-1525]

In TY 2013 and later years, Laws 2012, Chapter 343 eliminates the requirement (provided by Laws 2011, 2nd Special Session, Chapter 1) that no employer can claim more than 400 new jobs in the first year of credit use, 800 jobs in the second year, and 1,200 jobs in the third year. The cap applied to credits claimed against insurance premium, individual income, and corporate income taxes. The credit cannot be claimed against employees that are also claimed under the Military Reuse Zone Tax Credit (A.R.S. § 20-224.04 and A.R.S. § 41-1531). Laws 2014, Chapter 168 changes the requirement for the New Employment Tax Credit program by providing that second and third-year credits can be claimed irrespective of whether the same employee remains employed as long as the employer replaces the vacant position with another qualified employee within 90 days.

Table 3

Investment and Median Wage Requirements

Urban Location

Minimum Capital Investment	Wages as Percent of County Median
$5,000,000	100%
$2,500,000	125%
$1,000,000	150%
$500,000	200%

Rural Location

Minimum Capital Investment	Wages as Percent of County Median
$1,000,000	100%
$500,000	125%
$100,000	150%

School Tuition Organization Tax Credit. A taxpayer may claim an insurance premium tax credit, up to the full amount of the donation, for contributions made to a school tuition organization that provides education scholarships and tuition grants either to children of low-income families (A.R.S. § 20-224.06) or to disabled children or children in foster care (A.R.S. § 20-224.07).

The full amount of tax credits approved by DOR pursuant to A.R.S. § 43-1183 (low-income credit) for both corporate income tax credits and insurance premium tax credits combined was initially capped at $10.0 million per year, with the cap increasing by 20% per year, beginning in FY 2008. Laws 2019, Chapter 281 limited the annual increase of the credit cap to 15% in FY 2021, 10% in FY 2022, and 5% in FY 2023. Beginning in FY 2024, the increase of the credit cap is limited to the greater of 2% or the annual change of the Metropolitan Phoenix consumer price index. In dollar terms, Chapter 281 limited the growth of the credit cap to $123.1 million in FY 2021, $135.4 million in FY 2022, and $142.1 million in FY 2023. The credit cap is $158.5 million in FY 2024.

Pursuant to A.R.S. § 43-1184 (displaced and disabled credit), the full amount of tax credits approved by DOR was capped at $5.0 million per year. Laws 2021, Chapter 412 increased the cap to $6 million beginning in FY 2022. A taxpayer may carry forward the unused portion of either tax credit for 5 years. A taxpayer claiming the credit shall not be required to pay any retaliatory taxes required by A.R.S. § 20-230. [A.R.S. § 20-224.06 and A.R.S. § 20-224.07].

The actual dollar impact of these tax credits is included in *Table 4*:

Table 4

FY 2023 INSURANCE PREMIUM TAX CREDIT USE

CREDITS:	Effective Calendar Years	Annual Cost
Health Insurance Premium [1/]	2007 -	$3,536,866
Insurance Guaranty Fund Assessment	1991 -	7,569,230
New Employment [2/]	2011 - 2029	1,650,000
Private School Tuition Organization – Low-Income Students [3/]	2006 -	49,138,363
Private School Tuition Organization – Disabled/Displaced Students [4/]	2009 -	5,602,188
Total Value of Credits		**$67,496,647**

1/ Credit is capped at $5 million annually.

2/ Credits claimed by individuals and corporations are separately reported under individual and corporate income tax credits. The ACA is authorized to issue up to $30 million of 1st year credits in each year between individual and corporate income and insurance premium taxpayers.

3/ Credits claimed by corporations are separately reported under corporate income tax credits. The credit was capped at $142.1 million in FY 2023 between corporate income and insurance premium taxpayers. Pursuant to Laws 2019, Chapter 281, the credit cap increased by 5% in FY 2023.

4/ Credits claimed by corporations are separately reported under corporate income tax credits. The credit is capped at $6 million annually beginning in FY 2022 between corporate income and insurance premium taxpayers.

SOURCE: Department of Insurance and Financial Institutions, *Report of Insurance Premium Tax Credits*.

PAYMENT SCHEDULE

Payment of the preceding calendar year's insurance premium tax liability is due on or before March 1 of each year. [A.R.S. § 20-224].

Any insurer that paid or is required to pay a tax of $50,000 or more for the preceding calendar year is required to pay an "installment" payment of 15% of that amount on or before the 15th day of each month from March through August. Laws 2017, Chapter 153 increased the threshold of tax liability above which an insurer is required to make installment payments, from $2,000 to $50,000 in the preceding calendar year, beginning in calendar year 2018. Installment payments are credited against the insurance premium tax due on March 1 of the following year [A.R.S. § 20-224(F)]. *Table 5* lists the dates and descriptions of insurance premium tax payments due in FY 2024.

AHCCCS health contractors make separate quarterly estimated payments for taxes on Medicaid premiums. As shown in *Table 5* below, estimated payments are due on March 15, June 15, September 15, and December 15 of each year. DIFI bills (refunds) the insurer for any balance of liability (overpayment) that remains on April 1 of the following year. [A.R.S. § 36-2944.01].

Table 5

FY 2024 Insurance Premium Tax Payment Schedule 1/

Due Date	Payment Description
July 15, 2023	CY 2023 Installment Payment (15% of CY 2022 Liability)
August 15, 2023	CY 2023 Installment Payment (15% of CY 2022 Liability)
September 15, 2023	AHCCCS contractor taxes for estimated capitation payments received from July 1 through September 30, 2023.
December 15, 2023	AHCCCS contractor taxes for estimated capitation payments received from October 1 through December 31, 2023.
March 1, 2024	Final Payment (Refund) of CY 2023 Liability
	Retaliatory Tax Payment for CY 2023
March 15, 2024	CY 2024 Installment Payment (15% of CY 2023 Liability)
March 15, 2024	AHCCCS contractor taxes for estimated capitation payments received from January 1 through March 31, 2024.
April 15, 2024	CY 2024 Installment Payment (15% of CY 2023 Liability)
May 15, 2024	CY 2024 Installment Payment (15% of CY 2023 Liability)
June 15, 2024	CY 2024 Installment Payment (15% of CY 2023 Liability)
June 15, 2024	AHCCCS contractor taxes for estimated capitation payments received from April 1 through June 30, 2024.

1/ If tax liability is at least $50,000 annually.

IMPACT OF STATUTORY CHANGES

The following section is a summary by year of statutory changes that have been enacted by the Legislature since 2017. There were no changes enacted to this tax in 2020, 2022 and 2023.

LAWS 2021

Laws 2021, Chapter 412 increased the aggregate credit cap for contributions made by corporations and insurers to qualifying school tuition organizations (STO) that provide education scholarships and tuition grants to disabled/displaced students from $5 million to $6 million, beginning in FY 2022.

Laws 2021, Chapter 430 creates a new insurance premium tax credit for affordable housing, which is administered by the Arizona Department of Housing. The Department is required to allocate the Affordable Housing credit for projects in Arizona that qualify for the federal Low-Income Housing Tax Credit and that are placed in service after June 30, 2022. The Affordable Housing credit is at least 50% of the federal Low-Income Housing Tax Credit but cannot exceed $4 million annually. The credit may not exceed the tax liability of the claimant but may be carried forward for up to 5 years. The Arizona Department of Housing is authorized to allocate a total of $4 million in tax credits per year from TY 2022 to TY 2025. Each of these 4 award cycles is available for 10 years.

LAWS 2019

Laws 2019, Chapter 281 limits the annual increase of the aggregate credit cap for contributions made by corporations and insurers to qualifying school tuition organizations (STO) that provide education scholarships and tuition grants to students of low-income families from 20% to 15% in FY 2021, 10% in FY 2022, and 5% in FY 2023. Beginning in FY 2024, the increase of the credit cap is limited to the greater of 2% or the annual change of the Metropolitan Phoenix consumer price index. In dollar terms, Chapter 281 limits the growth of the credit cap to $123.1 million in FY 2021, $135.4 million in FY 2022, and $142.1 million in FY 2023.

2018 LAWS

Laws 2018, Chapter 104 repeals the requirement that taxpayers that claim the Military Reuse Zone Insurance Premium tax credit may not claim the New Employment tax credit with respect to the same employment positions. The Military Reuse Zones Tax Credit was repealed by Laws 2017, Chapter 299.

2017 LAWS

Laws 2017, Chapter 153 modifies requirements for submitting insurance premium taxes. Beginning in CY 2018, DIFI may choose to require electronic payment and filing of all insurance premium taxes. The bill also increases the threshold of tax liability above which an insurer is required to make installment payments, from $2,000 to $50,000 in the preceding calendar year, beginning in CY 2018.

Laws 2017, Chapter 299 repeals the Military Reuse Zones Tax Credit in TY 2018. Although new credits may not be earned after TY 2017, previously earned credits may be carried forward up to 5 years and used no later than for TY 2022. Based on historical use, repeal of the tax credit is not estimated to have a revenue impact.

Laws 2017, Chapter 340 extends the date by which New Employment Tax Credits may be authorized and expands access to the credit. The bill extends the last date that ACA can authorize new credits from June 30, 2017 to June 30, 2025. Given a maximum 5-year schedule for claiming the credit (*see New Employment Tax Credit section for information*), businesses may claim credits through TY 2029. Prior to Laws 2017, Chapter 340, a business could not claim the new credit unless it added at least 25 net new jobs in a year in an urban area (5 in a rural area), paid employees at least 100% of the county median wage, and made a capital investment of at least $5.0 million ($1.0 million in a rural area). Beginning in TY 2018, Laws 2017, Chapter 340 permits businesses to qualify under the alternative levels of capital investment and wages shown in *Table 3*. The required number of net new jobs remains unchanged. The bill's impact on revenue collections is included within the *Corporate Income Tax* section.

A listing of statutory changes prior to the 2017 legislative session is available on the JLBC website located at https://www.azjlbc.gov/revenues/23taxbk.pdf.